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AMCONSUL LIVERPOOL

C O N F I D E N T I A L SECTION 01 OF 03 LONDON 00134

E.O. 11652: GDS

TAGS: OINT, PGOV, PFOR, EGEN, UK

SUBJECT: DECEMBER IN THE UK: FOR WILSON A CRUEL MONTH

REF: LONDON 18668

SUMMARY: THE "NEW ECONOMIC POLICY" AGREED TO BY GOVERNMENT. INDUSTRY AND THE UNIONS AT CHEQUERS IN NOVEMBER WAS PUT TO ITS FIRST MAJOR TEST IN MID-DECEMBER AND EMERGED BADLY DENTED. SHORT TERM POLITICAL CONSIDERATIONS ONCE AGAIN PREVAILED OVER ECONOMIC LOGIC, AS THE GOVERNMENT AGREED TO A 162 MILLION POUND BAIL-OUT SCHEME FOR THE TROUBLED CHRYSLER CORPORATION. THE PAINFUL AND DAMAGING DECISION TO RESCUE CHRYSLER WAS ACCOMPANIED BY SERIOUS DISAGREEMENT IN THE CABINET AND REBELLION ON THE GOVERNMENT'S PARLIAMENTARY BENCHES. APPROVAL OF THE SCHEME BY COMMONS WAS A PYRRHIC VICTORY FOR WILSON IN POLITICAL AS WELL AS ECONOMIC TERMS. PUBLIC REACTION TO THE DEVOLUTION WHITE PAPER RELEASED IN LATE NOVEMBER AND SCHEDULED FOR DEBATE IN JANUARY, WAS ADVERSE, ESPECIALLY IN SCOTLAND, BUT THE TIDE OF UNFAVORABLE OPINION SEEMED TO REcede LATER IN THE MONTH. DEVOLUTION, HOWEVER, REMAINS A DIVISIVE AND CONTENTIOUS ISSUE. LABOR'S NARROW MAJORITY IN COMMONS WAS BRIEFLY LOST FOLLOWING THE DEATH OF A LABOR MP, BUT THEN RESTORED BY AN ADROIT MOVE ON WILSON'S PART WHICH ALSO UNDERSCORED THE IMPOTENCE OF THE CONSERVATIVE OPPOSITION. HMG'S LONG-AWAITED IMPORT CONTROL MEASURES WERE ANNOUNCED AND PROVED TO BE INSIGNIFICANT, A FACT THAT WAS NOT LOST ON THE UNIONS OR LABOR'S LEFT-WING. AS ANTICIPATED, THE ECONOMY SEEMED TO BE LEVELING OUT IN DECEMBER. DESPITE RISING UNEMPLOYMENT. FOREIGN SECRETARY CALLAGHAN'S PERFORMANCE AT THE CIEC PROVOKED A MINOR TEMPEST IN THE EC. WHILE THE "COD WAR" WITH ICELAND CONTINUED -- SUBDUED, BUT POTENTIALLY EXPLOSIVE. END SUMMARY.

1. FOLLOWING INTENSIVE NEGOTIATIONS WITH CHRYSLER, THE
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GOVERNMENT DECEMBER 16 ANNOUNCED A FULL-SCALE RESCUE OPERATION TO SAVE THAT CORPORATION'S UK OPERATIONS, WHICH, DIRECTLY OR INDIRECTLY, PROVIDE EMPLOYMENT FOR SOME 65 - 67,000 WORKERS. THE BAIL-OUT PLAN CALLS FOR THE GOVERNMENT TO PROVIDE UP TO 162 MILLION POUNDS TO COVER ANTICIPATED LOSSES AND LOAN GUARANTEES, WITH CHRYSLER ADDING ANOTHER 12 MILLION OR MORE (ANY PROFITS WILL BE DIVIDED EQUALLY). CHRYSLER'S UK LABOR FORCE WILL BE

CUT FROM 25,000 TO 17,000. THE PLAN, WHICH DOES NOT INVOLVE THE GOVERNMENT'S TAKING EQUITY, DEFIED ECONOMIC LOGIC. THE GOVERNMENT'S OWN CENTRAL POLICY REVIEW STAFF PRODUCED A STUDY STRONGLY IMPLYING THAT CHRYSLER UK WAS NOT ECONOMICALLY VIABLE BECAUSE ITS PLANT IS TOO SMALL TO TAKE FULL ADVANTAGE OF ECONOMIES OF SCALE. AND EVEN AFTER THE RESAUE OPERATION WILL BE AT BEST A MARGINAL PRODUCER. INDUSTRY SECRETARY VARLEY WAS KNOWN TO SHARE THESE VIEWS. WHATEVER SUCCESS CHRYSLER MAY ENJOY IN THE SHORT RUN WILL BE MAINLY AT THE EXPENSE OF THE MORE EFFICIENT FORD OPERATION AND THE TROUBLED, GOVERNMENT-OWNED LEYLAND. EVEN MORE SIGNIFICANT, HOWEVER, WAS THE DAMAGE DONE TO THE GOVERNMENT'S NASCENT INDUSTRIAL POLICY, DESIGNED TO INVIGORATE BRITISH INDUSTRY BY "BACKING ONLY WINNERS." JOINTLY AGREED TO BY GOVERNMENT, INDUSTRY AND UNIONS ONLY ONE MONTH EARLIER AT CHEQUERS. EVEN ACCEPTING THE GOVERNMENT'S CONTENTION THAT THE CHRYSLER CASE IS SUI GENERIS, THE BAIL-OUT SCHEME LEAVES THE NEW POLICY BADLY BATTERED AND WILL ENCOURAGE SIMILAR RAIDS ON THE PUBLIC PURSE BY OTHER FAILING INDUSTRIES.

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2. THE DECISION TO BAIL CHRYSLER OUT WAS FUNDAMENTALLY POLITICAL, THOUGH THERE WAS STRONG DISAGREEMENT WITHIN THE CABINET AND THE PARLIAMENTARY LABOR PARTY (PLP) AS TO THE VALIDITY OF THE POLITICAL RATIONALE. GOVERNMENT SPOKESMEN CLAIM THAT THE SCHEME SAVES NEARLY 60,000 JOBS. WITH ATTENDANT SAVINGS FOR THE GOVERNMENT IN REDUNDANCY AND UNEMPLOYMENT BENEFITS. RETAINING COSTS AND OTHER SOCIAL PROGRAM EXPENDITURES. THE GOVERNMENT ALSO STRESSED THE IMPORTANCE OF FULFILLING CHRYSLER'S CONTRACT OBLIGATIONS TO IRAN. OF AT LEAST EQUAL WEIGHT WERE THREE UNVOICED CONSIDERATIONS: THE NEED TO STANCH THE HEMORRHAGE OF LABOR SUPPORT IN SCOTLAND WHERE CHRYSLER HAS A PLANT; THE DESIRE TO AVOID CABINET RESIGNATIONS OVER THE ISSUE; AND THE HOPE OF BUYING TIME FOR THE ECONOMY TO RECOVER SO THAT IF CHRYSLER ULTIMATELY FAILS A RECOVERING ECONOMY CAN SOUP UP AT LEAST SOME OF THE RESULTING UNEMPLOYMENT. DESPITE PRIME MINISTER WILSON'S MOST PERSUASIVE EFFORTS, THE PLP SPLIT ON THE RESCUE PLAN WHEN IT CAME TO A VOTE IN COMMONS, WITH MEMBERS OF BOTH ITS LEFT- AND RIGHT-WINGS ABSTAINING. THE PLAN, HOWEVER, WAS APPROVED BY A COMFORTABLE MARGIN WITH THE SUPPORT

OF THE SCOTTISH AND WELSH NATIONALISTS, THE ABSTENTION OF SOME TORIES AND THE ABSENCE OF ULSTER UNIONISTS. THE OUTCOME WAS AT BEST A PYRRHIC VICTORY FOR WILSON. AS ONE OBSERVER NOTED HYPERBOLICALLY: "WILSON HAS SUROASED HIS OWN PREVIOUS STANDARDS. BY ONE DEXTROUS MOVE... HE HAS UNITED THE TRIBUNE AND MANIFESTO GROUPS IN SAVAGE OPPOSITION TO HIS POLICIES; BROUGHT THE NEW GOLDEN BOY (INDUSTRY SECRETARY) ERIC VARLEY AND THE AGED RETAINER (SCOTTISH SECRETARY) WILLIAM ROSS TO THE BRINK OF RESIGNATION; SPLIT THE CABINET; ASSISTED THE SCOTTISH NATIONALISTS; AND EVEN MADE (CONSERVATIVE INDUSTRY SPOKESMAN) MICHAEL HESELTINE SEEM VIABLE." THE UNIONS, AS EXPECTED, SUPPORTED THE RESCUE PROGRAM, BUT WITH A NOTABLE LACK OF ENTHUSIASM.

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3. THE DEVOLUTION WHITE PAPER, RELEASED IN NOVEMBER, REMAINED THE FOCUS OF POLITICAL CONTROVERSY. WHILE THE INITIAL BACKLASH TO THE GOVERNMENT'S PROPOSAL SEEMED TO ABATE, SCOTTISH VOTERS RESPONDED BY ELECTING NATIONALISTS TO REPLACE LABOR AND CONSERVATIVE INCUMBENTS IN TWO LOCAL AUTHORITY BY-ELECTIONS. A FOUR-DAY DEBATE ON THE WHITE PAPER IS SCHEDULED AFTER COMMONS RECONVENES JANUARY 12. IT WILL GIVE A CLEAR INDICATION OF THE GOVERNMENT'S STRENGTH -- WHICH NOW APPEARS FAR SHORT OF THAT REQUIRED TO ENACT IMPLEMENTING LEGISLATION -- AND SHOULD PROVIDE CLUES AS TO HOW THE GOVERNMENT WILL MOVE TO ACCOMMODATE DISSENT. THE DEVOLUTION/REGIONAL NATIONALISM DILEMMA WILL CONTINUE TO PLAGUE THE GOVERNMENT IN THE COMING YEAR, INFLUENCING ITS POLICIES ON A HOST OF SUBJECTS. AS IN THE CHRYSLER CASE.

4. IF WILSON AND THE GOVERNMENT WERE REELING FROM THE CHRYSLER AND DEVOLUTION STORMS. THEY COULD FIND SOME CONSOLATION ELSEWHERE. THE IMPLEMENTATION OF MODEST IMPORT CONTROLS DEFUSED THAT POTENTIALLY TROUBLESOME ISSUE FOR THE MOMENT.

THESE RESTRICTIONS FORMED PART OF A LARGER EMPLOYMENT PROTECTION PACKAGE, AND WERE EFFECTED WITH ONLY PRO FORMA RESPONSES FROM PROponents AND OPponents. CLEARLY U.S. AND EC WARNINGS ABOUT THE CONSEQUENCES OF IMPORT CONTROLS DID NOT GO UNHEEDED. LABOR'S LEFT AND THE UNIONS ARE AWARE OF THE MODEST NATURE OF THESE STEPS, AND WHILE DISARMED FOR THE MOMENT, ARE LIKELY TO RENEW THEIR PRESSURE ON THE GOVERNMENT AS UNEMPLOYMENT MOUNTS. IN ANOTHER, MORE SIGNIFICANT MOVE, WILSON SKILLFULLY MANIPULATED CONSERVATIVE LEADER MARGARET THATCHER TO RESTORE LABOR'S MAJORITY IN COMMONS AFTER IT HAD BEEN LOST BY THE DEATH OF A LABOR MP. WILSON, WITH THATCHER'S APPRO-

VAL, NAMED CONSERVATIVE MP TO LORDS. CREATING A VACANCY AND RESTORING THE GOVERNMENT'S MAJORITY (ITS LOSS THREATENED THE GOVERNMENT'S CONTROL OF PARLIAMENTARY COMMITTEES AND HENCE ITS LEGISLATIVE PROGRAM). THATCHER'S ACQUIESCENCE TO THIS MANEUVER HIGHLIGHTED HER PARTY'S UNWILLINGNESS TO CONFRONT LABOR OR TO UTILIZE WHAT POLITICAL POWER IT ACCRUES.

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5. THE ECONOMY IN DECEMBER GENERALLY FOLLOWED THE PATH FORECAST. IT IS NOW FAIRLY CERTAIN THAT A PERIOD OF SIDEWISE MOVEMENT BEGAN WITH THE BOTTOMING OUT OF THE RECESSION EARLY IN THE AUTUMN. AFTER 14 MONTHS OF DECLINE INDUSTRIAL PRODUCTION ROSE 2.4 PERCENT THROUGH SEPTEMBER AND OCTOBER BUT REMAINS 4.9 PERCENT BELOW THE

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LEVEL OF A YEAR AGO. WHILE HIGH ANNUAL RATES OF PRICE INCREASE PERSIST, (25.2 PERCENT IN NOVEMBER OVER NOVEMBER 1974). THERE HAS BEEN A MARKED DECLINE IN THE RATE OF INFLATION OVER THE PAST SIX MONTHS. THIS IMPROVEMENT SHOULD BECOME APPARENT EARLY IN THE NEW YEAR AS ANNUAL RATES OF PRICE INCREASE DROP BELOW 20 PERCENT. UNEMPLOYMENT CONTINUE TO RISE, HOWEVER, WITH THE YEAR-END TOTAL STANDING AT JUST UNDER 1.2 MILLION, NEARLY TWICE THAT OF A YEAR EARLIER.

6. FRANCE PROVOKED A MINOR EC SQUABBLE FOLLOWING THE CIEC WHEN IT ACCUSED FOREIGN SECRETARY CALLAGHAN OF HAVING VIOLATED THE EC'S AGREED-UPON POSITION WHEN HE DEFINED UK INTERESTS IN THAT FORUM IN MID-DECEMBER. HMG RETORTED THAT RENCH SPOKESMAN HAD MISSTATED CASE AND THAT ONLY FRANCE AMONG EC MEMBERS WAS NOT IN ACCORD WITH THE UK POSTURE. OTHER EC COUNTRIES APPEARED TO IGNORE THE ARGUMENT, ONCE AGAIN POINTING UP ENERGY POLICY DIFFERENCES BETWEEN UK, FRANCE AND OTHER MEMBER COUNTRIES. THE UK/ICELAND FISHERIES DISPUTE REMAINED DEADLOCKED IN DECEMBER, DESPITE ITS BEING AIDED IN THE UN SECURITY COUNCIL (AT ICELAND'S INITIATIVE) AND THE NATO COUNCIL

(AT THE UK'S). AS A RESULT THE POTENTIALLY EXPLOSIVE
"COD WAR" DRAGGED ON. HMG, HOWEVER, REMAINS WILLING TO
NEGOTIATE A SETTLEMENT, PROVIDED ICELAND INCREASES ITS
OFFER FOR A UK CATCH OF 65,000 TONS.

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